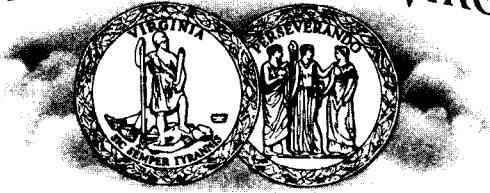


EXAMINATION REPORT
of
GRAYSON-CARROLL-WYTHE MUTUAL
INSURANCE COMPANY
Galax, Virginia
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Grayson-Carroll-Wythe Mutual Insurance Company as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 25th day of August, 2008

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
June 9, 2008

Honorable Alfred W. Gross
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, an examination of

**GRAYSON-CARROLL-WYTHE MUTUAL
INSURANCE COMPANY**
Galax, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a mutual assessment property and casualty insurer licensed under Chapter 25 of Title 38.2 of the Code of Virginia. The Company was last examined by representatives of the State Corporation Commission's (Commission) Bureau of Insurance (Bureau) as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2007.

HISTORY

The Company was originally granted a charter by the General Assembly of Virginia on February 24, 1896, under the name "Grayson County Farmers Mutual Benevolent Fire Insurance Company." The name of the Company has been changed several times. In 1977, the Farmers' Mutual Fire Insurance Association of Wythe County, Inc., was merged into the Company and the name changed to "Grayson-Carroll-Wythe Mutual Insurance Company." The purposes for which the Company was formed, according to its amended charter, are as follows:

The Conduct of a mutual assessment fire insurance business as defined in Code Section 38.1-659 including (a) fire insurance as defined in Code Section 38.1-6 and (b)

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

miscellaneous property insurance as defined in Code Section 38.1-7 when such insurance is issued as a supplemental or comprehensive contract in connection with a fire insurance policy.

The doing of all acts necessary and incidental to the said conduct and carrying on of the business indemnifying the members thereof for loss of, or damage to, property, by the levying of assessments based upon past or anticipated future losses, throughout this State to the widest extent allowed by the laws of Virginia, and as amended from time to time.

The power to make, enter into, perform and carry out contracts for the foregoing purposes.

The power to issue bonds, or notes, which may be secured by deeds of trust on real estate, as well as chattel mortgages on personal property and conditional sales contracts, to purchase, or otherwise acquire the stocks, bonds, or other securities of other individuals, firms, or corporations, and to establish branches for more convenient operation of its business at any place, within the State of Virginia, and in general do all things to carry out the purposes of this corporation, not inconsistent with the law.

On October 27, 1992, the Bureau approved the merger of The Mutual Fire Insurance Company of Bland County into the Company. This merger became effective March 4, 1993.

MANAGEMENT AND CONTROL

According to the Company's bylaws, management is vested in a board of directors, each of whom shall be a member of the Company. Directors are elected on a rotating basis at the annual meeting of policyholders and hold office for a period of three years. The Directors shall elect, from their members, a president and a vice president; additionally they shall elect a secretary-treasurer who may or may not be a member of the board of directors. The president and vice president hold office for one year and until their successors are elected and qualified. The secretary-treasurer shall serve at the pleasure of the board.

Directors and officers were as follows at December 31, 2007:

Directors

Principal Occupation

Roger D. Burnett	Employee, Vaughan Furniture Galax, Virginia
G. Dallas Shumate	Retired Rural Retreat, Virginia
Samuel H. Cassell	Retired Wytheville, Virginia
H. Wayne Catron	Insurance Salesman, AFLAC Insurance Independence, Virginia
Grover H. Cornett, Jr.	Retired Mouth of Wilson, Virginia
Thomas H. Higgins	Retired Galax, Virginia
Joseph R. Liddle	Secretary-Treasurer, Grayson-Carroll- Wythe Mutual Insurance Company Galax, Virginia

Officers

Roger D. Burnett	President
Thomas H. Higgins	Vice President
Joseph R. Liddle	Secretary-Treasurer

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a mutual assessment property and casualty insurer and as such may operate in any and all areas of the Commonwealth of Virginia. However, according to its bylaws, the Company confines its business to the counties of Grayson, Carroll, Wythe, Bland, and the city of Galax.

The Company writes fire, inland marine and homeowners' coverages and presently retains \$60,000 on such risks. The Company's bylaws allow for a maximum retention of \$60,000 on any building and its contents, or group of buildings liable to burn from a single fire. All policies, with the exception of coverages for livestock and hay, contain a \$250 or \$500 deductible clause. New business solicited by agents is underwritten by the staff with final review by the secretary-treasurer who investigates and approves applications for insurance. Claims investigations and adjustments are handled by a claims adjuster, along with a final review and approval by the secretary-treasurer.

FIDELITY BOND AND OTHER INSURANCE

The Company had fidelity bond coverage in force at December 31, 2007, to insure against losses arising from dishonest acts of the secretary-treasurer and office employees. The bond provides coverage in the amount of \$250,000, subject to a \$10,000 deductible.

Additionally, the Company had professional liability and directors and officers coverage in force at December 31, 2007. The coverage limit was in the amount of \$1,000,000, with a \$20,000 deductible for each loss event. The Company also had commercial automobile coverage, workers compensation coverage, insurance agents errors and omissions coverage, and coverage on its office buildings and contents.

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2007:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Underlying Excess of Loss	Property	\$60,000 each risk each loss occurrence	100% of \$60,000 in excess of \$60,000 per risk
Property First Surplus	Property	\$60,000 minimum any one risk	\$120,000 in excess of \$60,000 per risk
Casualty Excess of Loss	Liability	\$50,000 each risk each loss occurrence	\$500,000 in excess of \$50,000 per occurrence
Special Casualty Excess of Loss	Liability	\$500,000 combined net loss	100% of \$500,000 in excess of \$500,000 combined net loss, per occurrence, covering Bodily Injury and Property Damage Liability including Medical Payments
Aggregate Excess of Loss	Property and Casualty	80% of subject net premiums earned or \$1,619,200, whichever is the greater, plus the remaining 10% of any excess loss recoverable hereunder	90% of an amount of such excess up to but not exceeding an amount equal to 90% of 125% of net premiums earned during the respective calendar year, or 90% of \$3,795,000, whichever is the lesser

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Property Facultative Pro Rata	Property	\$60,000 any one risk	\$350,000 in excess of \$60,000
Umbrella Facultative	Property and Casualty	5% of the first \$1,000,000 of ultimate net loss	95% of the first \$1,000,000; 100% of \$4,000,000 in excess of \$1,000,000

All reinsurance is placed through Guy Carpenter & Company, Inc., a reinsurance intermediary. All agreements contain an insolvency clause and a guarantee of the intermediary's credit.

GROWTH OF THE COMPANY

The following data obtained from annual statements filed with the Bureau of Insurance and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2007:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
1998	\$6,929,709	\$1,102,445	\$5,827,264
1999	7,619,700	1,208,231	6,411,469
2000	7,953,020	1,267,359	6,685,661
2001	7,865,348	1,166,407	6,698,941
2002	8,154,874	1,287,239	6,867,635
2003	9,041,929	1,526,770	7,515,159
2004	9,607,128	1,624,745	7,982,383
2005	10,239,459	1,738,918	8,500,541
2006	10,751,635	1,634,779	9,116,856
2007	11,511,295	1,748,087	9,763,208

<u>Year</u>	<u>Net Assessments</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance Inforce</u>
1997	\$1,577,926	\$336,129	\$552,542	12,858	\$593,531,860
1998	1,656,748	392,005	501,188	12,930	648,350,368
1999	1,725,997	384,137	646,034	13,290	705,828,822
2000	1,775,950	441,598	673,650	11,329	756,981,262
2001	1,811,622	357,685	619,769	11,482	821,207,032
2002	1,981,833	275,961	670,663	11,745	909,829,003
2003	2,057,210	339,886	623,691	12,173	1,011,381,745
2004	2,201,820	431,782	845,867	12,275	1,071,662,551
2005	2,333,666	426,835	926,001	12,181	1,103,433,199

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Net Underwriting Gains or (Losses)</u>
*2006	\$2,458,112	\$1,089,950	\$1,243,612	\$124,550
2007	2,744,662	921,431	1,486,884	336,347

*The Company began filing a NAIC Property and Casualty Annual Statement as of December 31, 2006. Prior to 2006, the Company filed a Bureau-developed Mutual Assessment Property and Casualty Annual Statement.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2006, through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had medium or low risk assessment as determined from the principles of the risk-based examination approach contained in the *National Association of Insurance Commissioners Examiners Handbook*. Analytical review procedures were applied to non-material items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report:

History
Management and Control
Employees' Welfare and Pension Plans
Fidelity Bond and Other Insurance
Territory and Plan of Operation
Growth of the Company
Reinsurance
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2007, a statement of income for the period ending December 31, 2007, a reconciliation of capital and surplus for the period under review, and a statement of cash flow for the period ending December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$8,106,309		\$8,106,309
Preferred stocks	977,080	(22,920)	1,000,000
Common stocks	1,642,380	9,230	1,633,150
Real estate	377,606	9,137	368,469
Cash and short-term investments	228,651		228,651
Investment income due and accrued	112,064		112,064
Uncollected premiums and agents' balances in course of collection	18,684		18,684
Amounts recoverable from reinsurers	43,968		43,968
Furniture and equipment	48,542	48,542	
Aggregate write-ins:			
Prepaid expenses	25,573	25,573	
Agency commissions receivable	22,552	22,552	
Deferred acquisition costs	517,856	517,856	
Totals	<u>\$12,121,265</u>	<u>\$609,970</u>	<u>\$11,511,295</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$56,298
Commissions payable, contingent commissions and other similar charges		43,048
Other expenses		32,454
Taxes, licenses and fees		16,247
Current federal income taxes		132,726
Net deferred tax liability		15,308
Unearned premiums		1,391,589
Ceded reinsurance premiums payable		<u>60,417</u>
Total liabilities		\$1,748,087
Unassigned funds (surplus)	<u>9,763,208</u>	
Surplus as regards policyholders		<u>9,763,208</u>
Totals		<u><u>\$11,511,295</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$2,744,662</u>
Deductions:	
Losses incurred	\$901,281
Loss expenses incurred	20,150
Other underwriting expenses incurred	<u>1,486,884</u>
Total underwriting deductions	<u>\$2,408,315</u>
Net underwriting gain	<u>\$336,347</u>

INVESTMENT INCOME

Net investment income earned	\$480,673
Net realized capital gains	<u>63,528</u>
Net investment gain	<u>\$544,201</u>

OTHER INCOME

Miscellaneous income	<u>\$103,262</u>
Total other income	<u>\$103,262</u>
Net income before federal income taxes	\$983,810
Federal income taxes incurred	209,473
Net income	<u><u>\$774,337</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2006</u>	<u>2007</u>
Surplus as regards policyholders, December 31 prior year	<u>\$8,500,541</u>	<u>\$9,116,856</u>
Net income	\$536,187	\$774,337
Change in net unrealized capital gains or (losses)	81,604	(145,290)
Change in net deferred income tax		14,888
Change in nonadmitted assets		134,016
Aggregate write-in for gains and (losses) in surplus		(131,599)
Previous year audit adjustment	<u>(1,476)</u>	
Change in surplus as regards policyholders for the year	<u>\$616,315</u>	<u>\$646,352</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$9,116,856</u></u>	<u><u>\$9,763,208</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$2,807,474
Net investment income	448,821
Miscellaneous income	103,263
Total	<u>\$3,359,558</u>
Benefit and loss related payments	\$934,361
Commissions, expenses paid and aggregate write-ins for deductions	1,533,540
Federal income taxes (recovered)	(1,270)
Total	<u>\$2,466,631</u>
Net cash from operations	<u>\$892,927</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$1,217,515
Stocks	747,584
Total investment proceeds	<u>\$1,965,099</u>
Cost of investments acquired (long-term only):	
Bonds	\$1,065,563
Stocks	2,020,139
Total investments acquired	<u>\$3,085,702</u>
Net cash from investments	<u>(\$1,120,603)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash (applied)	<u>(\$6,011)</u>
Net cash from financing and miscellaneous sources	<u>(\$6,011)</u>
Net change in cash and short-term investments	<u>(\$233,687)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

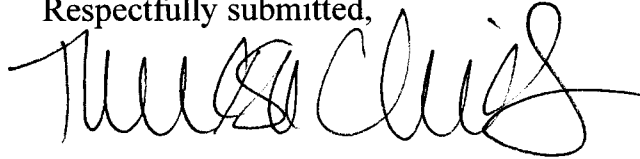
Cash and short-term investments:	
Beginning of year	\$462,338
End of year	228,651
Net change in cash and short-term investments	<u>(\$233,687)</u>

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the examination is gratefully acknowledged.

In addition to the undersigned, Mario A. Cuellar, CFE, Jennifer K. Crawley, CFE, and T. Bradford Earley, Jr, CFE of the Bureau participated in the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Theresa C. Lewis', with a stylized, flowing script.

Theresa C. Lewis, CFE
Senior Insurance Examiner

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1-800-758-8106
Fax Number
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STATE OF VIRGINIA
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276-236-8106

August 12, 2008

David H. Smith
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

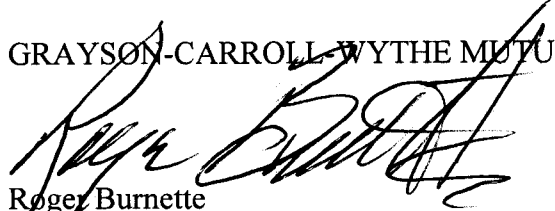
RE: Acknowledgement of receipt of Examination Report of December 31, 2007

Dear Mr. Smith:

I am in receipt of the above referenced examination report.

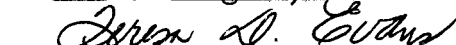
Sincerely,

GRAYSON-CARROLL-WYTHE MUTUAL INSURANCE COMPANY



Roger Burnette
President

Subscribed and sworn before me
This 12 day of August, 2008



(Notary Public)

